

First Year Evaluation of Riverboat Licensee
for Switzerland County, Indiana:
Belterra Resort, LLC
October 27, 2000-December 31, 2001

March 2002

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INTRODUCTION

The Riverboat Gambling Act, effective July 1, 1993, authorized the Indiana Gaming Commission to issue licenses for the express purpose of riverboat gambling in the state of Indiana. One of the statutory criteria for issuance of these licenses is the applicant's ability to promote economic development in the home dock area while best serving the interest of the citizens of Indiana. As an aid to fulfilling its legislative requirements, the Indiana Gaming Commission (Commission) contracted with the Center for Urban Policy and the Environment (Center) of Indiana University's School of Public and Environmental Affairs to perform the economic impact, fiscal impact, financial, management, and other analyses required to assist the Commission in awarding licenses. As part of that contract, the Center has committed to monitor over time the economic impacts and fiscal returns from each riverboat operation.

On September 14, 1998, the Commission issued a Certificate of Suitability for a Riverboat Owner's License for a riverboat to be docked in Switzerland County, Indiana. Belterra Resort, LLC (Belterra), formerly know as Pinnacle Gaming Development Corporation, opened on October 27, 2000. The Center and Commission are currently in the process of converting all of the evaluation reports to a calendar year basis. In this interim period, this report will cover the first 14 months of operation, but, unless otherwise noted, will consider 2001 its first year of operation for comparison purposes.

PROJECT DEVELOPMENT AND INVESTMENT

DEVELOPMENT ACTIVITIES

In the Certificate of Suitability (referred to throughout as Certificate), Belterra committed to spend \$148 million on project development, in addition to pledging to Switzerland County other incentives totaling several million dollars. As Table 1 illustrates, through 2001, it had spent \$246.2 million, over \$98 million more than projected.

The 3,000-passenger riverboat opened with 38,000 square feet of gaming space. The facility has a 14-story hotel with 308 rooms, 2,000 parking spaces, seven restaurants, an 18-hole Tom Fazio Golf Course, a spa and health club, a 1,750-seat showroom, retail shops, and banquet facilities.

Table 1: Actual Versus Predicted Development Costs

| Development | Certificate of Suitability | Actual | Difference |
|------------------------------------------|----------------------------|---------------|--------------|
| Pinnacle Acquisition | \$4,300,000 | \$5,919,700 | \$1,619,700 |
| Land | \$1,000,000 | \$7,743,366 | \$6,743,366 |
| Construction: Support Facilities | \$21,270,000 | \$23,008,587 | \$1,738,587 |
| Construction: Boat and Marine Facilities | \$43,000,000 | \$48,849,599 | \$5,849,599 |
| Gaming Equipment | \$12,250,000 | \$13,876,888 | \$1,626,888 |
| Hotel, Furniture and Fixtures | \$44,450,000 | \$116,314,519 | \$71,864,519 |

| | | | |
|----------------------|---------------|---------------|---------------|
| Golf Complex | \$10,000,000 | \$11,767,092 | \$1,767,092 |
| Pre-Opening Expenses | \$4,500,000 | \$15,911,107 | \$11,411,107 |
| Working Capital | \$7,230,000 | \$2,792,925 | (\$4,437,075) |
| Total Development | \$148,000,000 | \$246,183,783 | \$98,183,783 |

OTHER COMMITMENTS

As Table 2 illustrates, Belterra is current with regard to all of the additional commitments and has made several commitments that were not part of the Certificate. The \$1.2 million contribution to an emergency service facility was used to build the Switzerland County Medical Center, which houses doctors from the King's Daughter's Hospital, the Switzerland County Health Department, the Nurse-Managed Clinic, and a dentist.

Table 2: Schedule and Description of Incentive Payments

| Incentive | Promised Amount | Recipient | Amount Paid Through 12/01 | Status |
|----------------------------------|----------------------------------------------------------------------------------------------|-------------------------------------|---------------------------|------------------|
| Traffic Control & Infrastructure | \$1,120,000 | Switzerland County | \$1,750,000 | Completed Year 1 |
| Emergency Services Facility | \$1,200,000 | Switzerland County | \$1,200,000 | Completed Year 1 |
| EMS Ambulance | \$125,000 | Switzerland County | \$125,000 | Completed Year 1 |
| Firefighting equipment | \$300,000 | Florence | \$300,000 | Completed Year 1 |
| Firefighting equipment | \$45,000 | Moorefield | \$45,000 | Completed Year 1 |
| Firefighting equipment | \$45,000 | Posey | \$45,000 | Completed Year 1 |
| Firefighting equipment | \$45,000 | Patriot | \$45,000 | Completed Year 1 |
| Firefighting equipment | \$45,000 | Vevay-Jefferson-Craig | \$45,000 | Completed Year 1 |
| Firefighting equipment | \$45,000 | East Enterprise | \$45,000 | Completed Year 1 |
| Sheriff's Department | \$150,000 | Switzerland County | \$150,000 | Completed Year 1 |
| County Infrastructure | \$750,000 | Switzerland County | \$750,000 | Completed Year 1 |
| 4-H Fairgrounds | \$400,000 | Switzerland County | \$400,000 | Completed Year 1 |
| Riverfront Park | \$25,000 | Switzerland County | \$25,000 | Completed Year 1 |
| General Fund | \$5,000 | Switzerland County | \$5,000 | Completed Year 1 |
| Contribution | .298% \$0-40,000,000 AGR .390% \$40,000,001-\$80,00,00 AGR .528% over \$80,000,001 AGR | Switzerland County Public Endowment | \$312,563 | Ongoing |
| Contribution | .150% \$0-40,000,000 AGR .196% \$40,000,001-\$80,00,00 AGR .265% over \$80,000,001 AGR | Vevay Switzerland County Foundation | \$172,752 | Ongoing |
| Contribution | .150% \$0-40,000,000 AGR .196% \$40,000,001-\$80,00,00 AGR .265% over \$80,000,001 AGR | Vevay Town Board | \$172,752 | Ongoing |

| | | | | |
|--------------|-----------------------------------|--------------------|----------|---------|
| | AGR | | | |
| | .052% \$0-40,000,000 AGR | | | |
| | .068% \$40,000,001-\$80,00,00 | | | |
| | AGR | | | |
| | .092% over \$80,000,001 | | | |
| Contribution | AGR | Patriot Town Board | \$59,880 | Ongoing |
| | If AGR reaches \$127,202,817, | | | |
| | .425% AGR | | | |
| | If AGR reaches \$146,283,240m | | | |
| | .85% AGR | Switzerland County | \$0 | Ongoing |
| | | Crawford County | | |
| Contribution | Not in certificate of suitability | Development | \$6,550 | Ongoing |

Table 2: Schedule and Description of Incentive Payments (continued)

| Incentive | Promised Amount | Recipient | Amount Paid Through 12/01 | Status |
|----------------|-----------------------------------|--------------------------|---------------------------|------------------|
| Contribution | Not in certificate of suitability | Regional revenue sharing | \$546,269 | Ongoing |
| Infrastructure | Not in certificate of suitability | Florence regional sewer | \$145,075 | Completed Year 1 |
| Infrastructure | Not in certificate of suitability | Switzco Gas | \$1,156,664 | Completed Year 1 |
| TOTAL | | | \$7,502,505 | |

Table 3, below lists the distributions from the Casino Revenue fund in Switzerland County, which totaled almost \$9 million in 2001. Belterra's payments of the statutorily required admission tax and gaming tax to the County are deposited into this fund.

Table 3: Distributions from Switzerland County Casino Revenue in 2001

| Entity | Distribution |
|--------------------------------------------|--------------|
| Switzerland County Council | \$2,051,497 |
| Switzerland County Public School Endowment | \$1,184,369 |
| Switzerland County Fund | \$845,978 |
| 911/Public Safety/Law Enforcement | \$401,840 |
| Emergency Services | \$359,541 |
| Infrastructure | \$613,334 |
| Economic Development | \$63,448 |
| Regional Revenue Sharing-Jefferson County | \$422,989 |
| Regional Revenue Sharing-Ripley County | \$211,494 |
| Regional Revenue Sharing-Crawford County | \$211,494 |
| Crawford County | \$296,092 |
| Switzerland County YMCA | \$105,747 |
| Town of Vevay | \$592,184 |
| Town of Patriot | \$253,793 |
| Cotton Township | \$33,332 |
| Craig Township | \$19,119 |
| Jefferson Township | \$34,685 |
| Pleasant Township | \$29,609 |
| Posey Township | \$31,132 |
| York Township | \$21,319 |
| Switzerland County Fire Chiefs Corp | \$676,783 |
| Admissions/Tourism | \$208,719 |
| Total | \$8,668,498 |

COMMUNITY ACTIVITY

Belterra has contributed in-kind donations and monetary contributions to over 30 organizations including Switzerland County 4-H, American Red Cross, Attack on America Relief Fund, Vevay Cemetery Donation Fund, and the Switzerland Chamber of Commerce. Belterra also sponsored several events including the Madison Regatta, Swiss Wine Festival, Kentucky Speedway, Mighty Ducks Hockey Team in Cincinnati, and the Cincinnati Zoo Zoofari Charity Dinner.

MINORITY/WOMEN BUSINESS ENTERPRISE

In December 2001, the Indiana Gaming Commission approved a minority/women business action plan that was submitted by Belterra. This plan seeks to address Belterra's failure to meet the legislative requirements for minority/women business participation. A copy of the action plan can be obtained from the Indiana Gaming Commission.

ECONOMIC AND FISCAL IMPACTS

EMPLOYMENT AND EARNINGS IMPACTS

Belterra leased a building in Vevay and, for those not already experienced, conducted its own training for all riverboat-related positions, including dealers, cashiers, slot representatives and technicians, and surveillance personnel.

As Table 4 indicates, Belterra estimated in its application employment of 1,394 persons in the casino and hotel for annual wages totaling approximately \$25.1 million. As of December 2001, Belterra had 1,336 employees including the hotel. For 2001, salaries and wages were \$39 million, including tips to dealers (but not to bar and wait staff). Full-time employees receive benefits including medical, dental, vision, life insurance, short-term disability, and matching contributions to a 401k program.

Table 4: Comparison of Forecast to Actual Belterra Operation

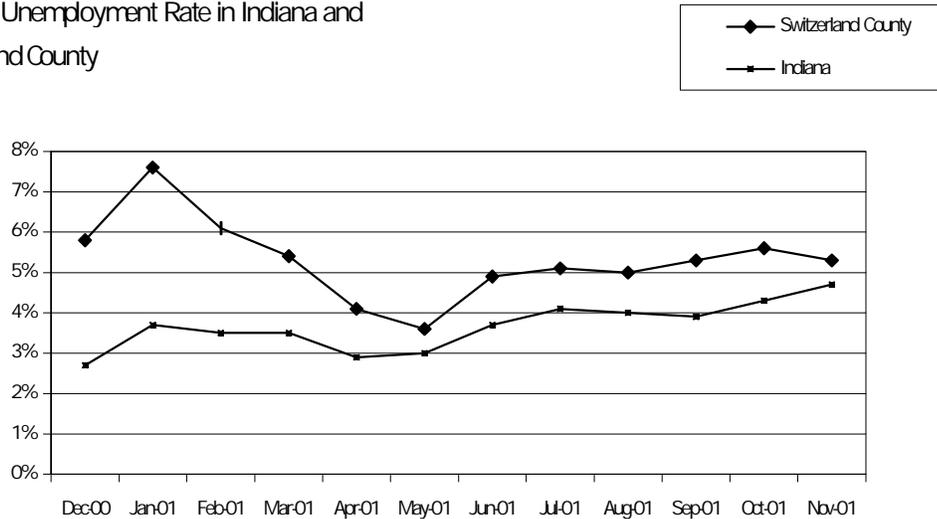
| Category | Application Forecast Year 1 | Actual 2001 | Difference |
|-------------------------------------|--------------------------------|--------------|----------------|
| Employment as of 12/31/01 | 1,394 | 1,336 | (58) |
| Total Wages, Tips, & Benefits | \$25,121,805 | \$39,078,835 | \$13,957,030 |
| Attendance | 2,888,975 | 2,310,951 | (578,024) |
| Gross Gaming Receipts | \$130,004,000 | \$96,024,050 | (\$33,979,950) |
| \$ per Patron per Cruise | \$45 | \$42 | (\$3) |
| Gaming Tax (State) | \$19,500,600 | \$14,402,933 | (\$5,097,667) |
| Gaming Tax (Local) | \$6,500,200 | \$4,800,978 | (\$1,699,222) |
| Admission Tax (State) | \$2,888,975 | \$2,310,951 | (\$578,024) |
| Admission Tax (County) ¹ | \$5,777,950 | \$4,621,902 | (\$1,156,048) |

¹No incorporated city

As Table 4 illustrates, in 2001, Belterra had adjusted gross gaming receipts of \$96 million, \$34 million or 26 percent less than its application estimate. It had total gross revenues (including casino, food and beverage, parking, hotel, gift shop, and other revenues) of \$123.1 million, \$37.2 million less than the \$160.3 million estimated in its application. Attendance was 20 percent lower than expected and Belterra slightly overestimated the receipts per passenger per trip (by \$3 per patron). Total local taxes (county admission taxes plus local gaming tax) were \$9.4 million, or \$2.9 million less than the projection of \$12.3 million in Belterra's application.

As Figure 1 illustrates, Switzerland County's unemployment rate was above the state average through 2001, but decreased from December 2000, while the state average rose. In November of 2001, Switzerland County had unemployment rates of 5.3 percent while the state average was 4.7 percent. The opening of the riverboat in the area appears to have had a positive effect on unemployment as well as the overall growth of the economy in the region.

Figure 1: Unemployment Rate in Indiana and Switzerland County



As of December 2001, 55 percent of Belterra's employees were women, nine percent were minorities, 59 percent were from Switzerland, Jefferson and Ripley Counties, and 28 percent came from out-of-state. In its application, Belterra did not make hiring commitments.

LOCAL ECONOMIC IMPACT

In addition to the gaming taxes paid to the city and state, Belterra paid \$1,193,377 in sales and use taxes and \$473,285 in property taxes. Payroll of \$39 million and local purchases of \$1.7 million also contributed to the local economy. Three new housing developments have begun in Switzerland County since the riverboat opened. One issue that needs to be addressed in Switzerland County before additional housing or business development can occur is the lack of infrastructure to provide water to any new development.

IMPACT ON TOURISM

In 2001, Indiana residents made approximately 28 percent of the trips to Belterra, with most of those trips local. In 2001, Belterra had 2.3 million admissions. This attendance was lower than Belterra's attendance projection of 2.9 million in its application. The hotel occupancy rate for 2001 was 89.6 percent. Belterra has reopened the Ogle Haus Inn (54 rooms) and there has been a request through

planning/zoning by a different company for a 40-unit motel to be developed across from Belterra on SR156.

LEGAL ISSUES

Belterra did not have any employee-related lawsuits or lawsuits related to risk management in 2001. There were 37 arrests for incidents on Belterra property in 2001. The largest categories of arrests were public intoxication, cheating at gambling games, and arrests for warrants. Less than .00002 percent of visits in 2001 resulted in an arrest. Belterra checked the identification of 10,175 guests and 171 were turned away for no identification and 52 were turned away for being under 21. According to the Switzerland County Sheriff's office, while the area surrounding the riverboat has not experienced additional criminal activity that can be attributed to Belterra presence, there has been a noticeable increase in traffic and a moderate increase in arrests for driving under the influence. One problem of the increased traffic on the two-lane roads that lead to the riverboat is that traffic often does not yield to emergency vehicles.

OTHER IMPACTS

Belterra has made efforts to minimize the negative impacts of gambling. All employees receive training about compulsive gambling as part of their orientation. Belterra is a member of the Indiana Council on Problem Gambling and the Kentucky Council on Problem Gambling. It also has a self-ejection program in which, upon request by a patron, he or she is removed from personal check cashing privileges, credit privileges, direct mail marketing materials, and promotional mail at Belterra. If they return they are subject to arrest for trespassing. This self-ejection is permanent and cannot be rescinded. All printed materials and billboards list the number to call for help with gambling problems.

SUMMARY OF FINDINGS

Belterra has met or exceeded the requirements of its Certificate in the following areas:

- Belterra has spent a total of \$246.2 million on the development of the project, \$98.2 million more than estimated.
- Belterra is on schedule with all of its incentive payments and has provided several additional payments that were not included in the certificate of suitability.
- Belterra has sponsored many community events and it has made in-kind and monetary contributions to more than 30 organizations.
- Wages, benefits, and tips were \$39 million, \$14 million higher than projected.
- Belterra paid \$1,193,377 in sales and use taxes and \$473,285 in property taxes.
- Belterra has been proactive in developing programs for compulsive gambling.

Belterra has not met its projections in the following areas:

- Employment totaled 1,336 employees, 58 less than projected.
- Gross gaming receipts were \$96 million, \$34 million less than the \$130 million projected.
- State and local gaming taxes were \$26.1 million, \$8.5 million less than projected.
- In December 2001, the Commission approved a minority/women business action plan that was submitted by Belterra. This plan seeks to address Belterra's failure to meet the legislative requirements for minority/women business participation.